



UNIVERSITI PUTRA MALAYSIA

**PERFORMANCE RATING FOR SMALL AND
MEDIUM SIZE FURNITURE MANUFACTURERS
UNDER INTEGRATED MARKETING SCHEME
IN PENINSULAR MALAYSIA**

PAIMAN BAWON

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By

PAIMAN BAWON

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Statement of Originality

Except where specific acknowledgment is given, the research work reported in this thesis is entirely that of the author.


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Date : 29 Dec 1999

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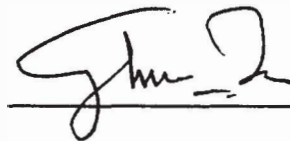
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LIST OF ABBREVIATIONS

ATTC	-	Asean Timber Technology Centre
EPU	-	Economic Planning Unit
IMP	-	Industrial Master Plan
IMS	-	Integrated Marketing Scheme
MFIC	-	Malaysian Furniture Industry Council
MTIB	-	Malaysian Timber Industry Board
NIES	-	National Industry Extension Services
SMI	-	Small and Medium Industries

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in
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by

PAIMAN BAWON

November 1999

Chairman: Mohd Ariff Jamaluddin, Ph.D.

Faculty : Forestry

The furniture industry in Malaysia has shown rapid expansion. It has been identified as a priority industry for development under the Second Industrial Master Plan (IMP) for the period of 1998 to 2005. Exports value for 1997 amounted to RM3.8 billion, but now the firm footage this industry has in the international market may be lost if the quality of furniture products are not stringently regulated. Performance management in this case is the key to success and therefore it must function efficiently especially at the administrative level and the production process.

The objectives of this study were to identify the level of performance required, to study the current level of performance practiced, to highlight areas for improvement and to establish an acceptable performance standards that can be used as a guideline for Bumiputra manufacturers under the integrated marketing scheme anchored by Guthrie Furniture Sdn. Bhd.

The results of the study showed that most of the manufacturers were in the D grade (lack of performance in a number of areas) and the E grade (performance is generally unacceptable) in which corrective actions are necessary for improvement. Production and management aspects were interrelated and contributed to changes in the level of quality finishing of furniture.

In general, the major factors influencing performance were machine, raw material, maintenance, training, administrative and labour. Three specific factors affecting performance as shown through this study were the level of automation, frequency of training, and frequency of management meeting. Other factors were good housekeeping of the work area, raw material recovery, average production capacity, local or international market, maximum production capacity, maintenance schedule, waste disposal, labour cost, working capital, skills and knowledge in operations, labour turnover, paid-up capital and overall skills and knowledge of workers.

It is hoped that the information obtained from this study will be able to assist the Guthrie Furniture Sdn. Bhd. to plan and provide better assistance and guidance to the manufacturers to improve performance in management and production. The influences defined as critical indicators in the performance analysis should be included in the performance rating standard.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master Sains.

**PERKADARAN PRESTASI PENGELUAR PERABOT BERSAIZ KECIL
DAN SEDERHANA DI BAWAH SKIM PEMASARAN BERSEPADU DI
SEMENANJUNG MALAYSIA**

oleh

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Industri perabot di Malaysia telah menunjukkan perkembangan yang pesat. Dalam Pelan Induk Perindustrian Kedua bagi tempoh 1998 hingga 2005, industri ini telah dikenalpasti sebagai industri yang diberi keutamaan untuk dibangunkan. Nilai eksport perabot pada 1997 telah mencapai 3.8 billion ringgit, tetapi kedudukan mantap dalam pasaran antarabangsa industri ini akan terjejas sekiranya kualiti barangan perabot tidak dimantau secara berterusan. Kunci utama kejayaan dalam perkara ini ialah prestasi pengurusan dan oleh itu ianya mesti berfungsi terutama di peringkat pentadbiran dan proses pengeluaran.

Objektif kajian ini ialah untuk mengenalpasti tahap prestasi yang diperlukan, mengkaji tahap prestasi yang diamalkan, mengesan bahagian yang perlu ditingkatkan prestasinya dan menghasilkan piawai prestasi yang boleh digunakan oleh pengeluar Bumiputra di bawah skim pemasaran bersepadu yang diterajui oleh Guthrie Furniture Sdn. Bhd.

Keputusan kajian menunjukkan kebanyakan pengeluar berada dalam gred D (prestasi rendah di beberapa bahagian) dan gred E (prestasi pada keseluruhannya kurang memuaskan) di mana tindakan memperbaiki diperlukan. Aspek pengurusan dan pengeluaran saling berkaitan dan boleh menyumbangkan kepada perubahan pada tahap kualiti barangan perabot.

Pada keseluruhannya faktor utama yang mempengaruhi prestasi termasuklah mesin, bahan mentah, penyelenggaraan, latihan, pentadbiran dan pekerja. Tiga aspek spesifik yang mempengaruhi prestasi dalam kajian ini ialah tahap kejenteraan yang ada, kekerapan latihan dan kekerapan mengadakan mesyuarat pengurusan. Aspek lain yang terlibat adalah kebersihan kawasan kerja, pulangan bahan mentah, kapasiti purata pengeluaran, pasaran sama ada di dalam atau luar negara, kapasiti maksimum pengeluaran, jadual penyelenggaraan, pembuangan habuk, kos buruh, modal pusingan, pekerja berpengetahuan dan berpengalaman di bahagian operasi, pengambilan dan pembuangan pekerja, modal berbayar dan pekerja berpengetahuan dan berpengalaman keseluruhan bahagian.

Diharap keputusan yang diperolehi hasil dari kajian ini akan dapat membantu Guthrie Furniture Sdn. Bhd. merancang dan membimbing pengeluar untuk meningkatkan prestasi dalam aspek pengurusan dan proses pengeluaran. Semua faktor yang dikenalpasti dalam analisis prestasi ini merupakan penunjuk kritikal yang hendaklah dimasukkan dalam piawai perkadaran prestasi.

CHAPTER I

INTRODUCTION

Background to the Study

Malaysia is richly endowed with tropical forest resources and is one of the world's leading producers and exporters of tropical timber (Malaysian Timber Industry Board, 1997). The vast forest resources have enabled the country to establish processing industries geared for world markets.

In general, the development in the timber industry saw greater processing activity from 1968, with the establishment of a number of secondary manufacturing industries such as furniture, moulding and joinery manufacturing (Abdul Latif, 1981). When the New Economic Policy (NEP) was introduced in 1970, the government had taken tremendous effort in promoting entrepreneurial capability among the Bumiputras through active commercial and industrial participation especially in the small business sectors including the furniture industry.

The furniture industry in Malaysia has shown rapid growth in recent years. It has been identified as a target industry under the government Second Master Plan in the period 1998 - 2005. This rapid growth has been attributed to strong government support through schemes such as the 'Payung' Scheme (Mun, 1992).

In 1997 timber and timber products contributed RM14.7 billion or 7% of the total export earnings of the country (MTIB, 1998). In 1998, the timber industry remained prominent even though exports dropped to RM14.2 billion.

According to MTIB (1998), there were over 5,200 timber processing mills, of which the major ones are 1,193 sawmills, 179 plywood and veneer mills, 344 moulding plants and approximately 2,900 furniture factories. Table 1 shows the major wood processing mills in Malaysia in 1998.

Table 1. Major Wood Processing Mills in Malaysia 1998

Sawmill	1,193
Plywood/veneer mills	179
Moulding plants	344
Furniture factories (approx.)	2,947
MDF Plants	9
Kiln-drying plants	259
Timber preservation	179

Source: Forestry Department, Peninsular Malaysia, Sarawak Timber Industry Development Corporation and Forest Department Sabah.

The wood-based industry is adequately supported by timber preservation and kiln-drying facilities. In addition, there are also 11 particleboard plants, 9 medium density fibreboard plants, 6 wood cement board plants, 41 laminated board plants, 10 prefabricated house plants, 10 wood chip plants and 6 wooden toy factories. This industry provides employment to more than 211,000 people. Although the economic crisis in 1997-99 affected Malaysia and the Asian region, the wooden and rattan furniture industries on the contrary, showed a positive growth. Exports of wooden and rattan furniture expanded further in 1997 and 1998 to RM2.6 billion and RM3.3 billion respectively. Major markets were the United States, Japan, Singapore, United Kingdom and Taiwan.

The Seventh Malaysian Plan emphasized the importance of small and medium industries (SMIs) in supporting and sustaining the country's industrialization agenda (Economic Planning Unit, 1999). The government continued to promote and upgrade Bumiputra SMIs, through the Vendor Development programme under the Ministry of Entrepreneur Development. This programme succeeded in creating 201 vendors in 14 industries.

Efforts were also intensified to assist Bumiputra furniture manufacturers to participate actively in the domestic Park Programme which included an Integrated Furniture Manufacturing and Marketing Scheme. In 1998, there were about 2620 small and medium furniture mills in Peninsular Malaysia, 670 (25.6%) of which were owned by Bumiputra. Compared to the number of non-Bumiputra mills (1950 or

74.4%), the number of Bumiputra operators is still small, and it is also generally felt that the quality of furniture products of Bumiputra operators has much to be desired. Nevertheless, Bumiputra manufacturers now are becoming more conscious in upgrading the quality of furniture. This awareness is in line with the government's objective for various sectors of the industry to continuously upgrade their product quality in order to improve their position in the market. The government encourages the adoption of high technology as a means to overcome the increasing cost of raw materials and the shortage of skilled labour as well as to increase production capacity. In order to transform quality into a strategic business plan and management dimension, quality control should be the company's focal point. This can only be gauged if customers' quality expectation and subsequent satisfaction are recognised.

Problem Statement and Justification of the Study

Quality is an important aspect in furniture manufacturing. According to Roslan (1994), lack of high skilled workers is the main factor that affects the quality in the furniture industry. Tong (1984) states that among the factors which determine the quality of good furniture are accurate machining, precision joining and good finishing. The lack of modern know-how and equipment among the majority of the furniture manufacturers makes it difficult for them to ensure that these quality factors are being taken care of.

Another major factors are raw material, production, plant characteristic, personnel and organisation. Razali et al. (1980) indicated that raw material constitutes an important cost component to furniture manufacture. The average raw material cost takes about 58% over the sale value, i. e 24% for wages and 18% for miscellaneous expenses. Their studies also indicated that production was usually the most complicated operation in an enterprise. Associated problems were not only technical in nature, but also economical and organisational. The basic objective of production is to make and deliver goods of a desired kind, at the right quantity, at the right time and at the lowest cost possible with minimum investment.

In this case, performance management is the key to success for any manufacturing sector. This study has looked into the performance in various stages in small and medium furniture manufacturers by using rating scales of performance appraisal. This thesis proposes to establish a performance rating for Bumiputra manufacturers in the small and medium furniture industries. According to EPU (1999), the definition of small and medium industries included companies with 150 full-time employee or less.

Scope of the Study

The scope of this study was evaluate the management performance of the bumiputra furniture manufacturers under the integrated marketing scheme and to grade them according to their performance.

Objectives

The main objective of this study was to develop a performance rating scale and to grade the SMIs under the integrated marketing scheme (sekim pemasaran bersepadu) anchored by GUTHRIE Furniture Sdn. Bhd. The specific objectives of this study were:

1. To identify the level of performance required in the furniture manufacturing sector.
2. To study the current level of performance practised in the Bumiputra furniture manufacturing sector.
3. To highlight areas for improvement in the furniture industry.
4. To establish an acceptable performance standard that can be used as a guideline by small and medium industries in the furniture manufacturing sector.

CHAPTER II

LITERATURE REVIEW

Furniture Industry in Malaysia

The furniture industry in Malaysia is rapidly expanding and according to the Malaysian Furniture Industry Council (1998), Malaysia's furniture industry has been identified as a 'target industry' under the government's Second Industrial Master Plan (IMP) for the period 1998 to 2005. By then, it is envisaged that annual exports will hit RM6 billion, having risen from RM27 million to more than RM2 billion over the past decade. It is forecasted that the export will grow between 10 to 15 % from 1996 to 2000.

According to Fadillah (1986), the development of furniture industry in Malaysia has reached the stage of modernisation in the era of mass-production of knock-down furniture, both for export and domestic markets. Ismail and Abd. Rauf (1988) point out that the opportunity for further development will be based on the successful adjustment in a local market environment.

According to Razali et al. (1980), one of the most serious problem faced by the furniture manufacturing is the sub-contracting of upholstery work which gives rise to

difficulty in controlling the design and quality of finished products. Quality in products and operations is the important factor that needs to be considered in order entrepreneurs to achieve high level of success. Another problem is due to the lack of qualified design personnel in this industry.

Limitation of land and space is among other factors which can seriously deter the development of the industry. As for the furniture industry, to break away from the traditional small scale production towards mass production is difficult since many of the small-sized furniture workshops lack space for proper placement of machines and expansion. However, medium and large mills with better financial position may eventually move to various industrial sites, while the small manufacturers, handicapped by economy of scale and the difficulty in securing credits, are left behind.

The Important Quality Factor in Furniture Industry

The purpose and importance of quality control in furniture manufacturing are similar to those of other manufacturing industries. Some of the reasons for establishing the quality control system in manufacturing industries are:

1. to produce good quality product.
2. to minimise production cost and wastage.